

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Iosco Transit Corporation	County Iosco
Fiscal Year End 9/30/07	Opinion Date 10/26/07	Date Audit Report Submitted to State 1/15/08	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) James M. Anderson, P.C.		Telephone Number (989) 563-2450		
Street Address P.O. Box 255		City Roscommon	State MI	Zip 48653
Authorizing CPA Sigr 	Digitally signed by James M. Anderson, CPA DN: cn=James M. Anderson, c=US, o=James M. Anderson, P.C., email=jma@m33access.com Date: 2008.01.15 16:01:07 -05'00'	Printed Name James M. Anderson, CPA		License Number 1101017419

**IOSCO TRANSIT CORPORATION
AUDIT REPORT
YEAR ENDED SEPTEMBER 30, 2007**

IOSCO TRANSIT CORPORATION

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James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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INDEPENDENT AUDITOR'S REPORT

October 26, 2007

Board of Directors
Iosco Transit Corporation
1036 N. Aulerich Road
East Tawas, MI 48730

I have audited the accompanying financial statements of the business-type activity and major fund, which collectively comprise the basic financial statements of the Iosco Transit Corporation as of and for the year ended September 30, 2007, as listed in the table of contents. These statements are the responsibility of the Transit's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and major fund of the Iosco Transit Corporation, as of September 30, 2007, and the changes in financial position and cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America.

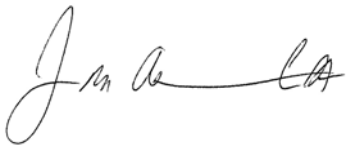
In accordance with Government Auditing Standards, I have also issued my report dated October 26, 2007, on my consideration of the Iosco Transit Corporation's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

MEMBER MACPA and AICPA

Page 2
Board of Directors
Iosco Transit Corporation
October 26, 2007

The management's discussion and analysis on pages 3-6 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Iosco Transit Corporation basic financial statements. The accompanying financial information listed as supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in my opinion, is fairly stated, in all material respects, in relation to the financial statements, taken as a whole.

A handwritten signature in cursive script, appearing to read "J M Anderson".

JAMES M. ANDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANT

IOSCO TRANSIT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2007

Using this Annual Report

Our discussion and analysis of the Iosco Transit Corporation's financial performance provides an overview of the Transit's financial activities for the fiscal year ended September 30, 2007. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets provide information about the activities of the Transit and present a longer-term view of the Transit's finances.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements, and an additional section that presents supplemental information and schedules. The basic financial statements include two kinds of statements that present different views of the Transit:

- . The first two statements are financial statements that provide both long-term and short-term information about the Transit's overall financial status. These statements report information about the Transit, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Transit's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid. The two statements report the Transit's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities – this is one way to measure the Transit's financial health or position.
- . The remaining statement is a Statement of Cash Flows to demonstrate the activities of the Transit as it relates to cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing, and cash flows from investing activities.

Reporting the Bus System as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Revenues, Expenses, and changes in Net Assets report information about the Transit, as a whole, and about its activities in a way that helps answer the question of whether the transit, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Transit's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets regardless of when cash is received and paid.

IOSCO TRANSIT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2007

The two statements, mentioned above, report the Transit's net assets and how they have changed. The reader can think of the Transit's net assets (the difference between assets and liabilities) as one way to measure the Transit's financial health or financial position. Over time, increases or decreases in the Transit's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Transit you need to consider additional non-financial factors such as changes in the County's property tax base, the condition of the Transit's busses, and changes in the laws related to the operating assistance received from the Federal and State government.

Financial Analysis of the Bus System as Whole

The Transit's net assets decreased approximately 20%, or \$36,563, from \$180,584 to \$144,021 for the year ended September 30, 2007. The net assets and change in net assets are summarized below.

Net Assets

The financial position of the Transit is relatively the same as the prior year. Although the net assets decreased by \$36,563, the unrestricted portion increased by \$17,829 from \$5,605 to \$23,434. The overall decrease in the net assets can be attributed primarily to the lesser amount of capital and county grants received during 2007 and the continual depreciation of the fixed assets.

The net assets as of the year ended September 30, 2007, are as follows:

	<u>2007</u>	<u>2006</u>	<u>Variance</u>	<u>%</u>
Current and Other Assets	\$ 74,700	\$ 65,916	\$ 8,784	13.33
Capital Assets	<u>120,587</u>	<u>174,979</u>	<u>(54,392)</u>	<u>(31.08)</u>
Total Assets	<u>195,287</u>	<u>240,895</u>	<u>(45,608)</u>	<u>(18.93)</u>
Current Liabilities	51,266	60,311	(9,045)	(15.00)
Noncurrent Liabilities	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total Liabilities	<u>51,266</u>	<u>60,311</u>	<u>(9,045)</u>	<u>(15.00)</u>
Net Assets				
Contributed equity	41,468	61,780	(20,312)	(32.88)
Invested in Capital Assets	79,119	113,199	(34,080)	(30.11)
Unrestricted	<u>23,434</u>	<u>5,605</u>	<u>17,829</u>	<u>318.09</u>
Total Net Assets	<u>\$ 144,021</u>	<u>\$ 180,584</u>	<u>\$ (36,563)</u>	<u>(20.25)</u>

IOSCO TRANSIT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2007

Changes in Net Assets

	<u>2007</u>	<u>2006</u>	<u>Variance</u>	<u>%</u>
Operating Revenue				
Charges for Services	\$ 66,584	\$ 65,737	\$ 847	1.29
Nonoperating Revenue				
Taxes Levied for Transit	97,515	92,486	5,029	5.44
State of Michigan Operating Grants	128,930	126,280	2,650	2.10
Federal Operating Grants	55,837	47,531	8,306	17.47
County Grants	-0-	19,215	(19,215)	(100.00)
Capital Grants	2,469	14,250	(11,781)	(82.67)
Interest	337	345	(8)	(2.32)
Gain on Sale of Fixed Assets	<u>10</u>	<u>9,038</u>	<u>(9,028)</u>	<u>(99.89)</u>
Total Revenue	<u>351,682</u>	<u>374,882</u>	<u>(23,200)</u>	<u>(6.19)</u>
Operating Expense				
Salaries and Wages	193,750	192,863	887	0.46
Fringe Benefits	28,226	31,583	(3,357)	(10.63)
Depreciation	56,861	60,828	(3,967)	(6.52)
Other	<u>109,408</u>	<u>107,392</u>	<u>2,016</u>	<u>1.88</u>
Total Operating Expense	<u>388,245</u>	<u>392,666</u>	<u>(4,421)</u>	<u>(1.13)</u>
Income (Loss)	(36,563)	(17,784)	(18,779)	(105.59)
Beginning Net Assets	<u>180,584</u>	<u>198,368</u>	<u>(17,784)</u>	<u>(8.96)</u>
Ending Net Assets	<u>\$ 144,021</u>	<u>\$ 180,584</u>	<u>\$ (36,563)</u>	<u>(20.25)</u>

IOSCO TRANSIT CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2007

Capital Asset and Debt Administration

At September 30, 2007, the Transit had \$120,587 invested in capital assets. This amount represents a net decrease (including additions and deductions) of \$54,392 or (31.08%) as follows:

	<u>2007</u>	<u>2006</u>	<u>Total Percentage Change 2006-2007</u>
Capital Assets Not Being Depreciated			
Land	\$ -0-	\$ -0-	0.00
Subtotal	<u>-0-</u>	<u>-0-</u>	<u>0.00</u>
Capital Assets Being Depreciated			
Building	470,877	470,209	0.14
Vehicles	490,851	490,851	0.00
Equipment	<u>99,367</u>	<u>97,973</u>	<u>1.42</u>
Subtotal	<u>1,061,095</u>	<u>1,059,033</u>	<u>0.19</u>
Total Capital Assets	<u>1,061,095</u>	<u>1,059,033</u>	<u>0.19</u>
Total Accumulated Depreciation	<u>940,508</u>	<u>884,054</u>	<u>6.39</u>
Total Net Capital Assets	<u>\$ 120,587</u>	<u>\$ 174,979</u>	<u>(31.08)</u>

Please refer to the notes of the financial statements for more detailed information.

Economic Factors and Next Year's Budget

While Iosco Transit Corporation's (ITC) total eligible expense decreased by \$475 in 2007 the revenue decreased by \$23,200. Almost all of the decrease fell within our local share. Fuel prices continue to soar and ITC is now forced to pay the entire amount of the fleet liability insurance. For these reasons ITC continues to struggle to provide a much needed service and growing need for Iosco County.

I have been and will continue in 2008 to find ways to cut expenses, including personally taking on the responsibilities of the secretary, without cutting services. I am applying for small grants to help with the office and maintenance expenses. I will continue to work towards increasing revenue, raising passenger fares only as a last resort.

Pauline Ferns
General Manager

IOSCO TRANSIT CORPORATION
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007

ASSETS

Current Assets:

Cash and investments	\$ 27,031
Accounts receivable	3,504
Taxes receivable	5,501
Grants receivable	<u>38,664</u>

Total Current Assets 74,700

Property and equipment, less accumulated depreciation 120,587

Total Assets 195,287

LIABILITIES

Current Liabilities:

Accounts payable	6,192
Accrued payroll	14,442
Due to County	3,792
Line of credit	<u>26,840</u>

Total Current Liabilities 51,266

NET ASSETS

Contributed equity	41,468
Invested capital assets, net of related debt	79,119
Undesignated	<u>23,434</u>

Total Net Assets \$ 144,021

The accompanying notes are an integral part of these financial statements.

IOSCO TRANSIT CORPORATION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2007

Operating Revenues	
Charges for services	
Fare box and special fares	\$ 64,230
Vehicle maintenance	11
Advertising	<u>2,343</u>
Total operating revenues	<u>66,584</u>
Operating Expenses	
Salaries and wages	193,750
Fringe benefits	28,226
Materials and supplies	68,008
Services	10,513
Utilities	9,136
Casualty and liability insurance	10,825
Miscellaneous	10,926
Depreciation	<u>56,861</u>
Total operating expenses	<u>388,245</u>
Operating income (loss)	<u>(321,661)</u>
Non-operating Revenues (expenses)	
Property taxes	97,515
Federal operating assistance	55,837
State operating assistance	128,930
State and Federal capital grants	2,469
Interest/investment income	337
Gain on disposal of Assets	<u>10</u>
Total non-operating revenues	<u>285,098</u>
Change in Net Assets	(36,563)
Net Assets - October 1, 2006	<u>180,584</u>
Net Assets - September 30, 2007	<u><u>\$ 144,021</u></u>

The accompanying notes are an integral part of these financial statements.

IOSCO TRANSIT CORPORATION
STATEMENT OF CASH FLOWS
FOR YEAR ENDED SEPTEMBER 30, 2007

Cash flows from operating activities	
Cash receipts from operations	\$ 65,606
Cash payments for supplies and services	(111,525)
Cash payments for employee services and fringes	<u>(219,705)</u>
Net cash provided (used) by operating activities	<u>(265,624)</u>
Cash flows from noncapital financing activities	
Property taxes	92,014
Federal operating grants	55,837
State operating grants	<u>121,894</u>
Net cash provided (used) by noncapital financing activities	<u>269,745</u>
Cash flows from capital and related financing activities	
Federal/State capital grants	2,469
Purchase of fixed assets	(2,469)
Sale of Fixed Assets	10
Net decrease in line of credit	<u>(9,199)</u>
Net cash provided (used) by capital and related financing activities	<u>(9,189)</u>
Cash flows from investing activities	
Investment income	<u>337</u>
Net cash provided (used) by investing activities	<u>337</u>
Net increase (decrease) in cash and cash equivalents	(4,731)
Cash and Cash Equivalents - October 1, 2006	<u>31,762</u>
Cash and Cash Equivalents - September 30, 2007	<u><u>\$ 27,031</u></u>

The accompanying notes are an integral part of these financial statements.

IOSCO TRANSIT CORPORATION
STATEMENT OF CASH FLOWS
FOR YEAR ENDED SEPTEMBER 30, 2007

Reconciliation of operating income to net
cash provided by operating activities:

Operating income (loss) \$ (321,661)

Adjustments to reconcile operating income to net
cash provided by operating activities:

Depreciation	56,861
Decrease (increase) in accounts receivable	(978)
Increase (decrease) in accounts payable	(2,117)
Increase (decrease) in accrued liabilities	<u>2,271</u>

Total adjustments	<u>56,037</u>
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Net cash provided (used) by operating activities	<u><u>\$ (265,624)</u></u>
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The accompanying notes are an integral part of these financial statements.

IOSCO TRANSIT CORPORATION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

NOTE A - DESCRIPTION OF THE REPORTING ENTITY

The Iosco Transit Corporation is a nonprofit corporation under contract with the County of Iosco to provide public transportation to the residents of Iosco County. Its function is to carry out the terms of the public transportation service contract between the Michigan Department of Transportation and the Board of County Commissioners of the County of Iosco.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Iosco Transit Corporation conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant policies.

Basis of Accounting - The accrual basis of accounting is followed. The accrual basis provides that revenues are recorded when earned and expenditures are recorded when the related liability is incurred.

Financial Reporting Entity - The Public Transit is required by Public Act 51 of the State of Michigan to have a separate audit performed of its operations. This financial report has been prepared to meet this state requirement.

In accordance with accounting principles generally accepted in the United States of America and Government Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", these financial statements present the Iosco Transit Corporation. The criteria established by the GASB for determining the reporting entity include oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

Fixed Assets and Depreciation - Fixed assets are stated at cost or fair market value at date of gift. Depreciable fixed assets are depreciated over the estimated useful life of the assets on the straight-line method.

Inventory - Inventories are recorded as expenditures in the year of purchase. The amounts on hand at September 30, 2007 was determined to be immaterial and have therefore not been recorded on the books.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

IOSCO TRANSIT CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2007

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributed Capital - Prior to October 1, 2001, proceeds received from the State and the U.S. Department of Transportation, in accordance with contracts to purchase fixed assets were credited to Contributed Capital and were not recorded as revenue. Depreciation of fixed assets purchased with these funds is charged against Contributed Capital.

Property Taxes - Property taxes are levied as of December 1 of each year and are due by the last day of the following February. The taxes are collected by the local units of government within the County and are periodically remitted to the Transit through the County during the collection period. The taxes are recognized as revenue in the year in which payment is due.

NOTE C - VACATION AND SICK LEAVE

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is made available to the employees monthly. Vacation time does not accumulate from year to year except by mutual agreement between the Transit and the employees.

Sick leave is granted without pay upon application from the employee for illness or injury subject to the employer's right to request medical proof of disability.

The current portion of compensated absences benefits are recorded as expenditures.

NOTE D - CASH AND INVESTMENTS

The balance sheet at September 30, 2007 contained \$27,031 which was on deposit within various bank accounts. At year-end, the bank balance of these deposits was \$29,814. These deposits were 100% insured according to FDIC regulations.

Deposits are categorized into these three categories of credit risk.

1. Insured or collateralized with securities held by the entity or by its agent in the entity's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.
3. Uncollateralized

	Carrying Amount	Bank Balance
Insured (FDIC)	<u>\$ 27,031</u>	<u>\$ 29,814</u>

IOSCO TRANSIT CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2007

NOTE D - CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to local government's indirect investment in securities through the use of mutual funds or government investment pools.

Interest Rate Risk

The Transit Corporation has not adopted a policy that indicates how the Transit will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of Credit Risk

The Transit Corporation has not adopted a policy that indicates how the Transit will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Transit's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

IOSCO TRANSIT CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2007

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>Balance 10/1/06</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 9/30/07</u>
Building and Improvements	\$ 470,209	\$ 668	\$ -0-	\$ 470,877
Vehicles	490,851	-0-	-0-	490,851
Shop Equipment	46,386	-0-	-0-	46,386
Office Equipment	<u>51,587</u>	<u>1,801</u>	<u>407</u>	<u>52,981</u>
Totals	<u>\$1,059,033</u>	<u>\$ 2,469</u>	<u>\$ 407</u>	1,061,095
Accumulated Depreciation	<u>\$ 884,054</u>	<u>\$ 56,861</u>	<u>\$ 407</u>	<u>940,508</u>
Net Property and Equipment				<u>\$ 120,587</u>

Depreciation expense for fiscal year ending September 30, 2007 was \$56,861.

Useful lives of depreciable assets are as follows:

Buses & rehabilitations	3-10 years
Operations equipment	5-10 years
Garage equipment	3-15 years
Office equipment	3-10 years
Computer equipment	3-7 years
Building	4-20 years

NOTE F - STATE GRANTS

The Transit has contracted with the State of Michigan for grant funds for operations and equipment. All of the monies that the Public Transit is now eligible to receive have not been disbursed to them as the projects have not been completed. As of September 30, 2007, \$347,578 is still available to the Transit under those grants.

NOTE G - RISK MANAGEMENT

The Transit is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended September 30, 2007 the Transit carried commercial insurance to cover all risk of losses. The Worker's Compensation insurance is the only retrospectively rated policy; any premiums accrued are based on the ultimate cost of the experience to date of the Transit. The Transit has had no settled claims resulting from these risks that exceeded their commercial coverage in the past two fiscal years.

IOSCO TRANSIT CORPORATION
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2007

NOTE H- CONTRIBUTED CAPITAL

The Contributed Capital equity account represents funds provided by the federal Government and State of Michigan, to the Transit, to purchase buildings, buses and equipment. Depreciation on buildings, buses and equipment purchased with State and Federal Funds is charged against this account. Depreciation of fixed assets purchased with Contributed Capital, for the same period was \$20,312.

Effective for fiscal years beginning after July 2000, and for all subsequent years, all State/Federal Capital Grants are recorded as revenue on the Statement of Revenues, Expenses and Changes in Retained Earnings. For the year ended September 30, 2007, \$2,469 of State/Federal Capital Grants were recorded as revenue.

Contributed Capital balances as of September 30, 2001 have not been restated, and will continue to be amortized over the lives of the related fixed assets, until entirely depleted.

NOTE I - PROPERTY TAXES

During 2001 the voters of Iosco County approved a countywide property tax levy of up to .1 mill to provide for the continued operation of the Transit Corporation. Net property taxes collected for the year ended September 30, 2007 were \$97,515.

SUPPLEMENTAL INFORMATION

IOSCO TRANSIT CORPORATION
OPERATING REVENUES
YEAR ENDED SEPTEMBER 30, 2007

SCHEDULE 1

Operating Revenues

Demand-response (farebox)	\$ 64,230
Maintenance	11
Advertising	<u>2,343</u>
Total Operating Revenues	<u>\$ 66,584</u>

IOSCO TRANSIT CORPORATION
OPERATING EXPENSES
YEAR ENDED SEPTEMBER 30, 2007

	<u>Operations</u>	<u>Maintenance</u>
Labor		
Operators' salaries and wages	\$ 98,260	\$ 26,186
Dispatchers' salaries and wages	29,010	-0-
Fringe Benefits	16,192	3,183
Services	688	860
Materials and Supplies Consumed		
Fuel and lubricants	42,104	-0-
Tires and tubes	-0-	6,647
Other materials and supplies	-0-	17,413
Utilities	-0-	-0-
Casualty and Liability Costs	8,176	-0-
Miscellaneous Expenses		
Travel and meetings	-0-	-0-
Advertising	-0-	-0-
Lease/Rental	3,642	-0-
Other miscellaneous expenses	-0-	-0-
Depreciation & Amortization	<u>52,908</u>	<u>879</u>
Total Expenses	<u>\$ 250,980</u>	<u>\$ 55,168</u>

SCHEDULE 2

<u>General Administration</u>	<u>Total System</u>
\$ 40,294	\$ 164,740
-0-	29,010
8,851	28,226
8,965	10,513
-0-	42,104
-0-	6,647
1,844	19,257
9,136	9,136
2,649	10,825
1,315	1,315
1,674	1,674
-0-	3,642
4,295	4,295
<u>3,074</u>	<u>56,861</u>
<u>\$ 82,097</u>	<u>\$ 388,245</u>

SCHEDULE 3

IOSCO TRANSIT CORPORATION
NONOPERATING REVENUES
YEAR ENDED SEPTEMBER 30, 2007

Local Operating Grants	
Millage	<u>\$ 97,515</u>
Subtotal Local Operating Grants	<u>97,515</u>
State of Michigan Operating Grants	
Formula Operating Assistance (Act 51)	<u>128,930</u>
Subtotal State of Michigan Operating grants	<u>128,930</u>
Federal Operating Grants	
U.S. DOT Operating Grant - Section 5311	<u>55,837</u>
Subtotal Federal Operating Grants	<u>55,837</u>
State Capital Grants	<u>2,469</u>
Interest Income	<u>337</u>
Gain on Disposal of Fixed Assets	<u>10</u>
Total Nonoperating Revenues	<u><u>\$ 285,098</u></u>

SCHEDULE 4

IOSCO TRANSIT CORPORATION
SCHEDULE OF CONTRIBUTED EQUITY
YEAR ENDED SEPTEMBER 30, 2007

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Balance, October 1, 2006	\$ 55,390	\$ 6,390	\$ 61,780
Deduct			
Depreciation on assets purchased from contributed equity	<u>(19,012)</u>	<u>(1,300)</u>	<u>(20,312)</u>
Balance, September 30, 2007	<u>\$ 36,378</u>	<u>\$ 5,090</u>	<u>\$ 41,468</u>

IOSCO TRANSIT CORPORATION
CAPITAL CONTRACTS
YEAR ENDED SEPTEMBER 30, 2007

SCHEDULE 5

Grantor: Michigan Department of Transportation

	Grant Award <u>Carry Over</u>	<u>Earned</u>	Amount <u>Remaining</u>
#2002-0052/Z7	\$ 1,519	\$ 668	\$ 851
#2004-0453	509	-0-	509
#2002-0052/Z9	2,204	-0-	2,204
#2007-0233/Z7	10,000	-0-	10,000
#2007-0234/Z1	327,835	-0-	327,835
#2002-0052/Z13	<u>7,980</u>	<u>1,801</u>	<u>6,179</u>
	<u>\$ 350,047</u>	<u>\$ 2,469</u>	<u>\$ 347,578</u>

SCHEDULE 6

IOSCO TRANSIT CORPORATION
EXPENSES BY CONTRACT AND GENERAL OPERATIONS
YEAR ENDED SEPTEMBER 30, 2007

	Section <u>5311</u>	<u>Total</u>
Labor	\$ 193,750	\$ 193,750
Fringe benefits	28,226	28,226
Services	10,513	10,513
Materials and supplies	68,008	68,008
Utilities	9,136	9,136
Casualty and liability	10,825	10,825
Miscellaneous	10,926	10,926
Depreciation and Amortization	<u>56,861</u>	<u>56,861</u>
Total	388,245	388,245
Less		
Ineligible Expenses and Project Revenues	<u>59,795</u>	<u>59,795</u>
Total Eligible Expenses	<u>\$ 328,450</u>	<u>\$ 328,450</u>

SCHEDULE 7

IOSCO TRANSIT CORPORATION NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS YEAR ENDED SEPTEMBER 30, 2007

	2007-0233/Z1 Federal <u>Section 5311</u>	State Operating <u>Assistance</u>
Expenses		
Labor	\$ 193,750	\$ 193,750
Fringe benefits	28,226	28,226
Services	10,513	10,513
Materials & supplies	68,008	68,008
Utilities	9,136	9,136
Casualty & liability	10,825	10,825
Miscellaneous	10,926	10,926
Depreciation	<u>56,861</u>	<u>56,861</u>
Total Expense	<u>388,245</u>	<u>388,245</u>
Less Ineligible Expenses		
Depreciation	56,047	56,047
Services	11	11
Audit Fees	3,400	-0-
Interest	<u>337</u>	<u>337</u>
Total Ineligible Expense and Project Revenue	<u>59,795</u>	<u>56,395</u>
Net Eligible Expenses	<u>\$ 328,450</u>	<u>\$ 331,850</u>
Maximum Section 5311 Reimbursement (17.0%) not to exceed \$56,041	<u>\$ 55,837</u>	
State Operating Assistance		<u>\$ 128,163</u>

Federal Section 5311 expenses are only those expenses incurred in providing service to non-urbanized areas. The State Operating Assistance is computed at 38.6208% of the current eligible expenses for the year ended September 30, 2007.

SCHEDULE 8

IOSCO TRANSIT CORPORATION DETAIL OF INELIGIBLE EXPENSES AND REVENUES SEPTEMBER 30, 2007

Depreciation

Depreciation accrued by public operators is ineligible according to UMTA C 9050, 1A, Page V-4.

Services

The Transit Corporation provides maintenance services in Iosco County. 100% of the revenue from these services was considered ineligible.

Annual Audit Fees

Any Transit Agency that expends less than \$500,000 in federal funds must subtract out the cost of the annual audit as an ineligible expense under Section 5311. Therefore, \$3,400 has been treated as an ineligible expense for Section 5311 purposes.

Interest Expense

Interest expense on short-term debt is ineligible to the extent of interest earned. Therefore, \$337 has been treated as ineligible.



James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

P.O. Box 255 • Roscommon, MI 48653

Phone: (989) 563-2450 • Fax: (989) 563-3471 • E-mail: jma@m33access.com

October 26, 2007

Board of Directors
Iosco Transit Corporation
1036 N. Aulerich Road
East Tawas, MI 48730

As required by the Michigan Department of Transportation, schedules of mileage, vehicle hours and number of passengers transported for the twelve months ended September 30, 2007, follows. This supplemental information was not audited by me and accordingly, I do not express an opinion on it. However, I have reviewed the compilation methods for mileage and passenger data and found them reliable.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "J M Anderson", is written over a light blue rectangular background.

JAMES M. ANDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANT

MEMBER MACPA and AICPA

IOSCO TRANSIT CORPORATION
MILEAGE DATA, VEHICLE HOURS AND PASSENGERS (UNAUDITED)
YEAR ENDED SEPTEMBER 30, 2007

	<u>Public Transportation Mileage</u>	<u>Vehicle Hours</u>
DEMAND RESPONSE		
1st Quarter	39,103	2,078
2nd Quarter	43,017	2,130
3rd Quarter	41,220	2,096
4th Quarter	<u>37,300</u>	<u>1,995</u>
TOTAL OPERATIONS	<u><u>160,640</u></u>	<u><u>8,299</u></u>

See Auditor's Disclaimer on Preceding Page.

SCHEDULES 9 AND 10

<u>Regular Passengers</u>	<u>Senior Passengers</u>	<u>Disabled Passengers</u>	<u>Senior Disabled Passengers</u>
4,442	833	1,784	441
4,710	856	1,847	382
3,889	898	1,937	351
<u>3,416</u>	<u>767</u>	<u>1,717</u>	<u>314</u>
<u><u>16,457</u></u>	<u><u>3,354</u></u>	<u><u>7,285</u></u>	<u><u>1,488</u></u>



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

October 26, 2007

Iosco Transit Corporation
1036 N. Aulerich Road
East Tawas, MI 48730

Dear Board:

I have audited the financial statements of the business-type activity and major fund which collectively comprise the basic financial statements of the Iosco Transit Corporation for the year ended September 30, 2007, and have issued my report thereon dated October 26, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Iosco Transit Corporation's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of Iosco Transit Corporation's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

MEMBER MACPA and AICPA

Segregation of Duties

The idea of segregation of duties is that two or more persons are part of a process, such as cash disbursements, so that if a mistake is made by one, it will become apparent to another within a reasonable time period.

Currently, the Transit has one person in the bookkeeping staff who is responsible for writing cash receipts received by mail, writing checks, recording cash receipts, cash disbursements, payroll, bank transfers and adjusting journal entries as well as preparing bank reconciliations.

Monthly financial statements, conveyance of bank transfers and cash receipts deposits, and signing of checks are done by Management personnel or the Board of Directors.

With the limited bookkeeping staff, the Transit has an inherent weakness in the internal controls related to the bookkeeping functions. Segregation of these duties should be made on a practical basis.

Financial Statement Preparation

All Michigan governments are required to prepare financial statements in accordance with generally accepted accounting principals (GAAP). This is a responsibility of the Transit's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting). As is the case with most small and medium-sized entities, the Transit has historically relied on its independent external auditor to assist in the preparation of the government-wide financial statements and footnotes as part of its external financial reporting process. Accordingly, the Transit's ability to prepare financial statements in accordance with GAAP is based, in part, on its reliance on its external auditors, who cannot, by definition, be considered a part of the government's internal controls. This condition was caused by the Transit's determination that it is more cost effective to outsource the preparation of its annual financial statements to the auditors than to incur the time and expense of obtaining the necessary training and expertise required for the Transit to perform this task internally.

A Control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Iosco Transit Corporation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Transit's financial statements that is more than inconsequential will not be prevented or detected by the Transit's internal control. I consider the deficiencies described above to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Transit's internal control.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiencies described above I consider them to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Iosco Transit Corporation's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of management and the Board of Directors and is not intended to be, and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "James M. Anderson".

JAMES M. ANDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANT



James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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October 26, 2007

Board of Directors
Iosco Transit Corporation
1036 N. Aulerich Road
East Tawas, MI 48730

I have audited the financial statements of the business-type activity and major fund of the Iosco Transit Corporation for the year ended September 30, 2007, and have issued my report thereon dated October 26, 2007. Professional standards require that I provide you with the following information related to my audit.

My Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in my engagement letter dated October 25, 2007, my responsibility, as described by professional standards, is to plan and perform my audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because I did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by me.

As part of my audit, I considered the internal control of the Iosco Transit Corporation. Such considerations were solely for the purpose of determining my audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, I performed tests of Iosco Transit Corporation's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of my tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of my engagement letter, I will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Iosco Transit Corporation are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. I noted no transactions entered into by the Iosco Transit Corporation the year that were both significant and unusual, and of which, under professional standards, I am required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Iosco Transit Corporation's financial reporting process (that is, cause future financial statements to be materially misstated). In my judgment, none of the adjustments I proposed, whether recorded or unrecorded by the Iosco Transit Corporation, either individually or in the aggregate, indicate matters that could have a significant effect on Iosco Transit Corporation's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to my satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves applications of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, my professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

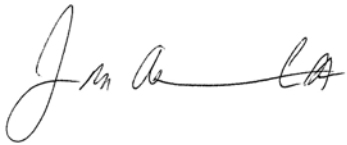
I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Iosco Transit Corporation's auditor. However, these discussions occurred in the normal course of my professional relationship and my responses were not a condition to my retention.

Board of Directors
Iosco Transit Corporation
October 26, 2007
Page 3

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing my audit.

This information is intended solely for the use of management and the Board of Directors and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "James M. Anderson". The signature is fluid and cursive, with a large initial "J" and a stylized "A" at the end.

James M. Anderson, PC
Certified Public Accountant